

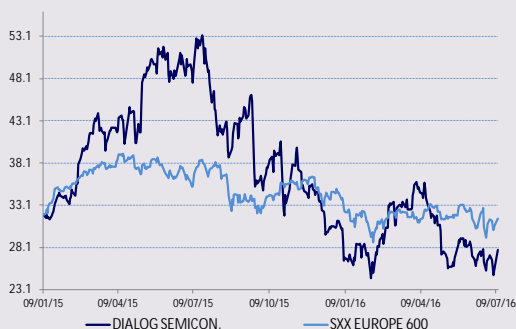
INDEPENDENT RESEARCH  
UPDATE

21st July 2016

TMT

Bloomberg	DLG GR
Reuters	DLGS.DE
12-month High / Low (EUR)	53.3 / 24.4
Market capitalisation (EURm)	2,246
Enterprise Value (BG estimates EURm)	1,493
Avg. 6m daily volume ('000 shares)	6.90
Free Float	96.0%
3y EPS CAGR	9.5%
Gearing (12/15)	-54%
Dividend yield (12/16e)	NM

YE December	12/15	12/16e	12/17e	12/18e
Revenue (USDm)	1,355	1,250	1,467	1,754
EBITA USDm)	317.7	243.0	313.9	384.5
Op.Margin (%)	23.4	19.5	21.4	21.9
Diluted EPS (USD)	3.02	2.38	3.12	3.96
EV/Sales	1.25x	1.19x	0.90x	0.62x
EV/EBITDA	4.7x	4.8x	3.4x	2.4x
EV/EBITA	5.3x	6.1x	4.2x	2.8x
P/E	9.6x	12.1x	9.2x	7.3x
ROCE	46.9	39.2	51.7	63.3



# Dialog Semiconductor

Low point reached

Fair Value EUR37 vs. EUR35 (price EUR28.85)

**BUY**

Dialog is currently in a transition year. The smartphones market is slowing, especially at Apple, and has frozen the group's growth for 2016. However, we remain convinced that the group's momentum should improve and expect sequential growth of more than 50% in H2 2016. Thanks to the R&D programmes currently underway, Dialog should then benefit from market share gains at its main clients as of 2017. With the skies brightening, momentum improving and low valuation multiples (2016e P/E of 12.1x vs 18x for peers), we are making no change to our Buy recommendation. We updated our model, especially on FX, and our FV from EUR35 to EUR37.

**Growth should return as of 2017.** By maintaining its R&D capex, the group has confirmed its confidence in restoring robust growth as of 2017 (BG ests. +17%). We believe that DLG should reap the benefits of innovation currently in development, and this should be passed onto PMIC prices in future smartphone generations (especially the iPhone). However, the group should also benefit from 1/ an increase in smartphone contents, 2/ ongoing positive trends in connectivity and power conversion, 3/ market share gains thanks to a closer collaboration with new Chinese players such as HiSilicon and Spreadtrum and a strengthened partnership with MediaTek, and 4/ marginally, the development of new product lines such as audio chips and PMICs for ARM laptops, televisions, set-top boxes, media sticks and wireless routers. In all, the recovery in business should help the group increase EPS by 9.5% on average over 2015-2018e (i.e. PEG of 1.4x).

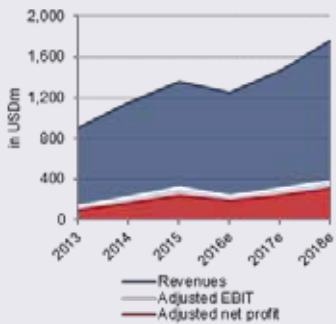
**In addition to the gradual improvement in business, the group still boasts a solid profile.** Although it is having a difficult year (2016e sales down 8%), the group should nevertheless maintain comfortable 2016e underlying EBIT margin of 19.6% enabling it to generate 2016e FCF of USD256m, or a FCF yield of 11.6% including a share buyback programme currently underway for EUR50m. As such, the balance sheet remains very strong and the group had net cash of EUR662m at the end of Q1 2016 (more than 30% of its capitalisation).

[Bryan Garnier : Semiconductors Looking for lost growth](#)

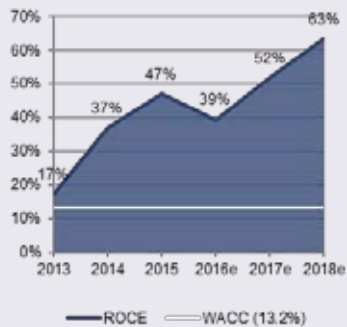
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## Dialog Semiconductor

## P&amp;L Structure



## ROCE vs. WACC



## Company description

Dialog Semiconductor is a German based semiconductor manufacturer specialised power management IC for consumer devices (PMIC). The group realises 80% of its sales with one client (Apple). The strong momentum realised by this client allows Dialog to show a significant profitable growth since 2008, despite a temporary slowdown at the moment. Today's challenge of Dialog is to expend its customer base and diversify its product portfolio.

Simplified Profit & Loss Account (USDm)	31/12/13	31/12/14	31/12/15	31/12/16e	31/12/17e	31/12/18e
Revenues	901	1,156	1,355	1,250	1,467	1,754
Change (%)	16.5%	28.3%	17.2%	-7.8%	17.4%	19.6%
Adjusted EBITDA	174	269	360	312	386	456
Adjusted EBIT	140	230	318	243	314	384
EBIT	103	186	260	337	249	323
Change (%)	12.8%	81.1%	39.7%	29.8%	-26.0%	29.4%
Financial results	(12.9)	(16.6)	(4.9)	(2.6)	(1.6)	(1.9)
Pre-Tax profits	89.7	169	255	335	248	321
Tax	(27.5)	(31.2)	(77.6)	(84.6)	(55.0)	(65.0)
Net profit	62.2	138	177	247	190	252
Restated net profit	97.6	172	238	185	240	304
Change (%)	22.1%	76.4%	38.5%	-22.2%	29.2%	27.0%

## Cash Flow Statement (USDm)

Depreciation & amortisation	48.6	56.0	56.9	69.0	72.0	72.0
Change in working capital	(9.8)	73.1	66.1	2.5	(8.4)	(11.1)
Operating cash flows	111	270	318	319	253	313
Capex, net	(38.7)	(42.6)	(69.4)	(63.0)	(73.0)	(73.0)
Free Cash flow	72.0	228	248	256	180	240
Financial investments, net	(306)	(0.44)	0.35	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of shares	0.0	0.0	0.0	0.0	0.0	0.0
Issuance (repayment) of debt	104	(105)	0.0	0.0	(5.0)	(5.0)
Other	3.1	15.9	(2.4)	(55.5)	0.0	0.0
Net debt	104	(114)	(554)	(754)	(929)	(1,164)

## Balance Sheet (USDm)

Tangible fixed assets	58.5	59.3	68.4	75.4	87.4	99.4
Intangibles assets & goodwill	393	376	390	370	352	334
Investments	1.5	1.4	3.8	3.8	3.8	3.8
Deferred tax assets	24.9	28.8	28.5	28.5	28.5	28.5
Other non-current assets	1.6	2.0	0.05	7.1	14.1	21.1
Cash & equivalents	186	324	567	767	942	1,177
Current assets	261	214	231	214	252	302
Total assets	927	1,006	1,288	1,465	1,679	1,965
Shareholders' equity	457	624	1,025	1,217	1,401	1,648
Provisions	9.5	10.3	4.6	4.4	4.7	5.1
Deferred tax liabilities	40.6	5.5	1.6	1.6	1.6	1.6
L & ST Debt	290	210	13.2	13.2	13.2	13.2
Current liabilities	131	156	244	229	259	297
Total Liabilities	927	1,006	1,288	1,465	1,679	1,965
Capital employed	560	510	471	463	472	484

## Ratios

Operating margin	15.49	19.92	23.44	19.45	21.40	21.92
Tax rate	30.66	18.45	30.44	25.29	22.21	20.26
Net margin	10.83	14.89	17.59	14.84	16.33	17.34
ROE (after tax)	13.62	22.14	17.30	20.32	13.53	15.29
ROCE (after tax)	17.28	36.85	46.89	39.24	51.71	63.31
Gearing	22.68	(18.28)	(54.02)	(61.96)	(66.30)	(70.62)
Pay out ratio	0.0	0.0	0.0	0.0	0.0	0.0
Number of shares, diluted	67.68	76.88	79.66	78.00	76.76	76.76

## Data per Share (USD)

EPS	0.95	2.05	2.42	3.25	2.57	3.42
Restated EPS	1.44	2.27	3.02	2.38	3.12	3.96
% change	21.0%	57.6%	33.0%	-21.3%	31.3%	27.0%
EPS bef. GDW	NM	NM	NM	NM	NM	NM
BVPS	6.75	8.11	12.87	15.60	18.25	21.47
Operating cash flows	1.64	3.52	3.99	4.09	3.30	4.08
FCF	1.06	2.96	3.12	3.28	2.35	3.13
Net dividend	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company Data; Bryan, Garnier & Co ests.

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NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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NEUTRAL ratings 34%

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